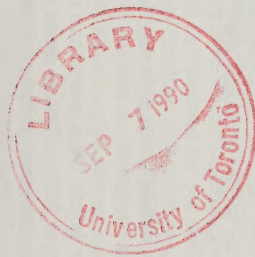



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**WESTERN
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STABILIZATION**



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UPDATE '90 is mailed to all Suffix A permit book holders as a reminder of important Western Grain Stabilization Program deadline dates and to provide a brief summary of the highlights marking 1989/90 crop year operations.

This UPDATE and the services of the Administration are available in both official languages.

Ce bulletin ainsi que les services de l'administration sont disponibles dans les deux langues officielles.

OPERATIONAL REVIEW - POSSIBLE CHANGES ON THE HORIZON

1988/89 Crop Year -

After five consecutive stabilization payments (1983/84 - 1987/88) providing more than \$3.9 billion in total benefits, final payout calculations after the close of the crop year confirmed a stabilization payment would not be triggered. For the 1988/89 stabilization period, stronger grain prices including initial price adjustments and a substantially higher Canadian Wheat Board final payment coupled with an unusually heavy cash-in of grain carried into the crop year on storage tickets kept net cash flow from falling below the average net cash flow for the immediately preceding five year period, a key measure in the payout formula needed to trigger a payout (See table comparing methods for measuring cash flow).

1989/90 Crop Year -

Preliminary calculations covering the first eight months of the 1989/90 crop year again showed cash flow may not fall below the previous five-year average, preventing an interim payment from being triggered.

In the August to March period of the current crop year lower prices were more than offset by a 21 per cent increase in grain deliveries. Canadian Wheat Board adjustment and final payments added over \$600 million to gross receipts. The prospect of a stabilization payment for the 1989/90 crop year cannot be ruled out until after mid-November when prices, marketed/carry-over grain quantities and production costs for the full crop year can be verified.

However it is important for producers to note that without any allowance for a 1989/90 stabilization payment, a benefit to cost comparison for a farmer who contributed the individual maximum in levy between, January 1, 1976 and July 31, 1990 still shows:

Stabilization benefits received	=	\$	83,901
Levies Paid	=	\$	16,125
Realized benefit/levy dollar paid	=	\$	5.20

A NEW SAFETY NET PROGRAM ON THE HORIZON -

The federal government, in co-operation with all provincial governments and the agri-food industry, has initiated a review of national agricultural policies with the view to providing more market responsiveness and greater self-reliance while recognizing regional diversity and improved environmental sustainability. A key component of this overall policy review is the development of a more effective stabilization program(s) for the Grains, Oilseeds and Special Crop sectors.

At the December, 1989 National Agriculture Policy Conference, Agriculture Minister Don Mazankowski announced the formation of an industry-wide safety net committee with federal/provincial government and producer representation. This Committee was asked to develop a program(s), initially applicable to the grains and oilseed sector, which would improve the sensitivity, protection and support against instability now being provided through a myriad of statutory and ad-hoc programs.

After extensive study, analysis and consultation, committee members recommended to the federal and provincial ministers of Agriculture a safety net concept which includes a dual approach to providing gross revenue insurance and net income stabilization account support to be operational on an individual farm basis. The concept is being developed further and would, if acceptable to producers, replace among others, the existing Western Grain Stabilization Program (WGSP) as early as the 1991/92 crop year. Nothing will be amended or changed without full consultation with producers, and a general acceptance that the proposed changes will be beneficial to producers. In the meantime, the statutory WGSP will continue to provide protection against sharp falls in cash flow on the Prairies whenever cash flow in the current year drops below that of the previous five-year average. Participants should also recognize that if a new improved safety net program is introduced, the income protection they have been receiving under the WGSP will be continued on what should be an enhanced basis under the new program.

IMPORTANT REMINDERS

- The 1989/90 crop year stabilization period closes on July 31, 1990. All grain sale settlements and levy deductions are credited to the crop year in which the cash ticket or cheque payment occurred according to the date it was made out or issued and not to the crop year (if different) of grain delivery, sales agreement or deferred cash ticket settlement. All levy deductions/remittances relative to the 1989/90 crop year must be reconciled and finalized no later than August 31, 1990 (postmark deadline).
- All grain proceeds issued through country elevators, dealers, processors and Designated Purchasers (feed mills, feed lots, seed processors, crop insurance corporation/agencies) which are registered with and reporting eligible receipts to the Administration, are subject to a levy payment of four per cent of the gross amount of the settlement. Participants are responsible for making sure the full amount of their levy entitlement has been deducted/remitted by their grain purchasing establishment. Producers are encouraged to check all their eligible grain sales and insurance indemnity payments to verify the application of the required four per cent levy deduction on eligible grain proceeds and to call levy deduction errors/oversights to the attention of the Administration. Any unpaid levy in the 1989/90 crop year will reduce stabilization payment benefits, if triggered, for the current and the following two crop years.

- The most likely cause for a 1989/90 levy shortfall would be related to the inability or uncertainty in deducting levy and establishing the participant status of crop insurance claimants. Omissions in deduction the proper levy amount at the time of insurance settlement may also be related to misunderstanding of statutory provisions or a producer's request for the allocation of eligible receipts to other than the "insured" contract holders permit account. Requests for allocating receipts will be accepted and processed only on the basis of land base (acreage) being described and confirmed in favor of a specifically named producer(s) in the crop insurance contract. Producers are advised to verify the registration of their crop/hail insurance contractor (corporation/agency) as a Designated Purchaser and confirm the status of their claim settlements for program coverage and levy entitlement/deduction.
- Documentation supporting levy remittances covering pedigreed seed sales must include: C.S.G.A. Crop Certificate (form 2) and bills of sale showing the sellers and buyer's name, quantity, unit price, kind, variety, date of sale (i.e. payment date) and the total value of the sale. Photostatic copies are NOT acceptable and all producer documentation is returned after processing.
- The WSG Act was amended in August 1988 to allow federal/provincial crop insurance corporations/agencies and private hail insurance companies to register as Designated Purchasers for the 1989/90 crop year. Crop insurance corporations in Manitoba, Saskatchewan and Alberta; the B.C. Ministry of Agriculture and Fisheries and one hail insurance company (Henderson Insurance Inc.*) are now registered as Designated Purchasers and reporting indemnity payments*/levy deductions on behalf of contract holders directly to the Administration. This change, approved in response to increased requests from producers for a simpler system of levy deduction on crop insurance proceeds, means that producers cannot send in 1989/90 crop insurance payments and levy remittances on their own. Crop/hail insurance indemnity payments are eligible for levy remittance only if such payments are issued by a corporation or agency which is registered with and reporting to the WGS Administration as a Designated Purchaser.

ONE PER CENT LEVY RATE USED IN PAYOUT CALCULATION

The amended WGS Act requires all producer levy contributions, regardless of the levy rate of deduction, to be adjusted to a common one per cent base rate when calculating producer's payout shares. This adjustment is applied to all participating accounts in exactly the same way and does not reduce or in anyway change or influence the total amount of the payout benefit to be shared by all participants. Use of a common levy base rate removes a distortion in the distribution of the payout when there is a levy rate change which unfairly reduces the benefit of continuing participants and increases the benefit to those producers who have less than three years of levy contributions.

EXAMPLE:

FARMER 'A' has paid levy on \$60,000 worth of grain sales at a one per cent levy rate in years one and two and at four per cent in year three. FARMER 'B' started farming in year three and paid levy on \$60,000 worth of grain sales at four per cent in year three only.

FARMER 'A' Levy (three years) = $600 + 600 + 2400 = \$3600$

FARMER 'B' Levy (one year) = $0 + 0 + 2400 = \$2400$

Without adjusting levy to a common one per cent base rate, Farmer 'B' who has taken part in the program for only one year contributes two-thirds of the total levy contributed by Farmer 'A' who has participated at the allowable individual maximum for three years. The result is that Farmer 'A' is penalized because his payout share is reduced while Farmer 'B' is favoured because he receives more than his fair share due to a levy rate increase.

For payout distribution, adjustment to a common levy base (one per cent) assigns Farmer 'A' with \$1800 ($600 + 600 + 2400/4$) and Farmer 'B' with \$600 ($2400/4$) for an entitlement to one third the benefit of Farmer 'A' because this producer has participated in only one of the three crop years used to calculate payout share, ensuring both farmers are treated fairly and equitably.

MULTIPLE PARTICIPATION

The WGS Act allows for multiple participation in the program. Partnership, company or co-operative permit book arrangements involving two or more actual producers (including spouses of participating producers) who are 18 years of age or older and who are actually engaged in the production of grain on the land described in the permit book, may apply to the Administration for multiple participatory status. When confirmed, the multiple assigned to a permit book arrangement raises the limit in levy entitlement and the total in grain sale proceeds eligible for levy deduction by the number of qualifying partners, shareholders or members listed in the "Statutory Declaration for Multiple Participation".

For example, in the 1990/91 crop year two partners could be assigned a multiple of two for their permit book and be eligible to contribute levy on a maximum of \$120,000 ($2 \times \$60,000$) in grain receipts. They would then contribute levy at the rate of four per cent of their actual sales under this ceiling.

To apply for multiple participatory status in the 1990/91 crop year, participants must request and return a completed, signed and witnessed "Statutory Declaration for Multiple Participation" to the Administration. This should be done as soon as possible after they receive their 1990/91 permit book and must meet the postmark deadline of January 31, 1991.

NOTE: Permit book holders with confirmed multiple coverage in the 1989/90 crop year will receive a special notice outlining their options with regard to continued participation at a multiple level in the 1990/91 crop year.

ACTUAL PRODUCERS WHO DELIVER GRAIN UNDER "INTERESTED PARTY" IDENTIFICATION PLATE NUMBERS MUST REPORT THEIR USE FOR LEVY PAYMENT

Actual Producers who hold an eligible Suffix A permit book but who sell grain under an associated "Interested Party" identification plate attached to the permit book and issued in their name, must advise the administration by signed notice that they wish to have those sales qualify for participation in the program. This provision only applies to actual producer sales. It does not apply to grain receipts received by landlords under crop-share rental agreements. For more information contact the Administration.

STABILIZATION ACCOUNT

A breakdown of the program's balance from 1976 to July 31, 1989 would show the following:

	\$Million
Producer Levies	741
Federal Government Levies	1432
Net Interest Earned	60
Subtotal	2233
Net Payouts to July 31, 1989	4323
Deficit Balance at July 31, 1989	(2090)
Less write-down	750
Net Fund Balance	(1340)*

*Levy contributions on eligible grain receipts have been paid at the following rates:

Period	Producer Levy %	Government Levy %
1976 to 1983	2.0	4.0
1984 (Jan. 1) to 1985 (July 31)	1.5	3.5
1985/86 & 1986/87 Crop Year(s)	1.0	3.0
1987/88 & 1988/89 Crop Year(s)	4.0	6.0

A COMPARISON OF METHODS FOR MEASURING CASH FLOW

Cash flow calculations 1987/88 and 1988/89 crop years

"Aggregate" cash flow ¹			"Per tonne" cash flow ¹		
	1987-88	1988-89		1987-88	1988-89
	(\$ millions)			(\$ millions)	
A Gross cash receipts	3768	5274	1 Gross tonnes marketed (mill. t)	32.3	29.4
B Gross grain expenses (eligible crops only)	3665	3483	2 Net eligible tonnes (mill. t)	27.06	22.2
C Marketing/production ratio ²	73.6%	80.8%	3 Net cash flow (\$/t) (G divided by 2)	33.15	83.60
D Net expenses re grain marketed (B x C)	2698	2815	4 Previous 5-year average per tonne net cash flow (\$/t)	74.77	62.13
E Net grain proceeds (A minus D)	1070	2459	5 Difference (\$/t) (4 minus 3)	41.62	(21.47)
F Eligibility ratio (actual producer sales to \$60000)	83.8%	75.5%	6 Potential payout (5 x 2)	1126	(477)
G Eligible net cash flow (E x F)	897	1857	7 Participation ratio (weighted)	85.1%	90.6%
H Previous 5-year average net cash flow ³	1817	1499	8 Calculated payout amount (6 x 7)	958	Nil
I Potential payout (H minus G)	920	(358)	Partial payout amount	695	
J Participation ratio (weighted)	85.1%	90.6%	Final payout amount	263*	
K Calculated payout amount (I x J) ⁴	783	Nil			
Partial payout amount					
Final payout amount					

¹ Steps A to G are common to both calculations. Steps I, J, K and 6, 7, 8 are parallel calculations.

² Adjusts gross grain expenses to include only the costs of producing grain sold or intended for the commercial market

³ Adjusted for \$60000 maximum receipts limit (grains, oilseeds, special crops)

⁴ Effective 1983-84 crop year, cash flow measure yielding larger amount used to issue payout

* Reduced to \$255 million to reflect an amount set aside for adjustments under a provision of the amended Act

ADMINISTRATION

An Advisory Committee of Producers consisting of a chairman and seven other members has been appointed from among participants to advise the federal government on all aspects of program operation. Current members of the Advisory Committee are: Robert Hopley, Oak River, Manitoba (Chairman); William Duke, Redvers, Saskatchewan; Thomas Hougham, Lloyminster, Saskatchewan; Donald Kuhl, Winkler, Manitoba; Ike Lanier, Lethbridge, Alberta; Kenneth Morton, Lacombe, Alberta; Samuel Sych, Brownvale, Alberta; and George Wickett, Rosetown, Saskatchewan.

Farmers may direct general inquiries about the program to the Advisory Committee. Specific questions relating to the standing of individual permit accounts should be forwarded together with the producer's identification number to:

Western Grain Stabilization Administration

935 - 303 Main Street

Winnipeg, Manitoba R3C 3H5

Telephone (204) 983-3384

NOTE: Requests for levy account balances must be in writing.

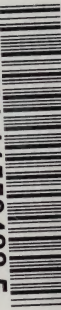
**** **REMEMBER** ****

July 31, 1990

- Postmark deadline for non-participants to rejoin program by signed notice for 1990/91 crop year.
- Postmark deadline for first-year permit book holders (1989/90) to opt out by signed notice from the program.

August 31, 1990

- Postmark deadline for mailing remittances covering levy shortfall for 1989/90 crop year. coverage.
- Postmark deadline for reporting 1989/90 sales under "Interested Party" producer identification plates for levy payment.



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